

**Excerpt from Quarterly Report  
(Consolidated Financial Statements)  
(January 1 to September 30, 2021)**

**Part 4. Financial Section**

**1. Preparation Method of Condensed Quarterly Consolidated Financial Statements**

- (1) The condensed quarterly consolidated financial statements of Dentsu Group Inc. (hereinafter referred to as "the Company") are prepared in accordance with International Accounting Standards 34 "Interim Financial Reporting" (hereinafter referred to as "IAS 34") under the provisions of Article 93 of the "Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements" (Cabinet Office Ordinance No. 64, 2007; hereinafter referred to as "the Ordinance").
- (2) In the condensed quarterly consolidated financial statements, figures less than one million yen are rounded down to the nearest million yen.

**2. Audit Certificate**

Pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, the Company's condensed quarterly consolidated financial statements for the third quarter ended September 30, 2021 (from July 1 to September 30, 2021) and the condensed consolidated financial statements for the first nine months (from January 1 to September 30, 2021) of fiscal year 2021, which were compiled in Japanese, were subject to a quarterly review by KPMG AZSA LLC.

# 1. Condensed Quarterly Consolidated Financial Statements

## (1) Condensed Quarterly Consolidated Statement of Financial Position

		(Millions of Yen)	
	Notes	FY2020 (As of December 31, 2020)	The third quarter (As of September 30, 2021)
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents		530,692	601,738
Trade and other receivables		1,293,370	1,351,432
Inventories		23,848	35,689
Other financial assets	15	12,162	15,781
Other current assets		64,739	79,789
Subtotal		1,924,814	2,084,431
Non-current assets classified as held for sale		2	2
<b>Total current assets</b>		<b>1,924,816</b>	<b>2,084,434</b>
<b>NON-CURRENT ASSETS:</b>			
Property, plant and equipment	7	280,196	178,444
Goodwill		593,369	653,316
Intangible assets		207,182	208,232
Investment property	7	36,362	515
Investments accounted for using the equity method		50,906	55,425
Other financial assets	15	216,750	243,427
Other non-current assets		16,202	15,505
Deferred tax assets		54,624	61,157
<b>Total non-current assets</b>		<b>1,455,595</b>	<b>1,416,026</b>
<b>TOTAL ASSETS</b>	5	<b>3,380,412</b>	<b>3,500,460</b>

		(Millions of Yen)	
	Notes	FY2020 (As of December 31, 2020)	The third quarter (As of September 30, 2021)
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES:</b>			
Trade and other payables		1,247,172	1,264,862
Borrowings	15	72,533	109,683
Other financial liabilities	7, 15	149,737	85,067
Income tax payables		71,228	55,775
Provisions		28,745	25,074
Other current liabilities		189,654	188,148
<b>Total current liabilities</b>		<b>1,759,071</b>	<b>1,728,612</b>
<b>NON-CURRENT LIABILITIES:</b>			
Bonds and borrowings	15	512,274	478,959
Other financial liabilities	7, 15	149,305	221,184
Liability for retirement benefits		25,421	29,834
Provisions	4	48,013	35,152
Other non-current liabilities		10,970	14,708
Deferred tax liabilities		55,002	59,326
<b>Total non-current liabilities</b>		<b>800,987</b>	<b>839,166</b>
<b>Total liabilities</b>		<b>2,560,059</b>	<b>2,567,779</b>
<b>EQUITY:</b>			
Share capital		74,609	74,609
Share premium account		75,596	77,376
Treasury shares	8	(34,592)	(54,693)
Other components of equity		41,790	87,850
Retained earnings		599,466	681,601
<b>Total equity attributable to owners of the parent</b>		<b>756,870</b>	<b>866,745</b>
<b>Non-controlling interests</b>		<b>63,483</b>	<b>65,935</b>
<b>Total equity</b>		<b>820,353</b>	<b>932,681</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3,380,412</b>	<b>3,500,460</b>

## (2) Condensed Quarterly Consolidated Statement of Income

For the nine months ended September 30, 2020 and September 30, 2021

		(Millions of Yen)	
	Notes	Nine months ended September 30, 2020 (From January 1 to September 30, 2020)	Nine months ended September 30, 2021 (From January 1 to September 30, 2021)
Turnover (Note 1)	5	3,146,255	3,694,821
Revenue	5, 9	676,362	774,548
Cost		74,435	78,152
Revenue less cost of sales	5	601,927	696,396
Selling, general and administrative expenses		551,075	591,181
Business transformation cost	4	25,174	11,383
Gain (loss) on sale and retirement of non-current assets	7	(91)	119,245
Other income	10	4,633	5,099
Other expenses	11	11,715	6,299
Operating profit		18,503	211,876
Share of results of associates		334	1,559
Impairment loss of associates		436	-
Gain on sales of shares of associates		55	35
Revaluation gain on step acquisition		44	-
Profit before interest and tax		18,501	213,471
Finance income	12	22,331	3,338
Finance costs	12	15,766	36,577
Profit before tax		25,067	180,233
Income tax expense		9,533	73,943
Profit for the period		15,533	106,290
Profit attributable to:			
Owners of the parent		10,286	101,746
Non-controlling interests		5,246	4,544
Earnings per share			
Basic earnings per share (Yen)	13	36.90	363.25
Diluted earnings per share (Yen)	13	36.87	362.22

## Reconciliation from operating profit to underlying operating profit

		(Millions of Yen)	
	Notes	Nine months ended September 30, 2020 (From January 1 to September 30, 2020)	Nine months ended September 30, 2021 (From January 1 to September 30, 2021)
Operating profit		18,503	211,876
Amortization of intangible assets incurred in acquisitions		23,333	22,393
Selling, general and administrative expenses		1,608	3,963
Business transformation cost		25,174	11,383
(Gain) loss on sale and retirement of non-current assets		91	(119,245)
Other income		(19)	(292)
Other expenses		7,130	1,747
Underlying operating profit (Note 2)	5	75,823	131,826

For the third quarter ended September 30, 2020 and September 30, 2021

		(Millions of Yen)	
	Notes	Third quarter ended September 30, 2020 (From July 1 to September 30, 2020)	Third quarter ended September 30, 2021 (From July 1 to September 30, 2021)
Turnover (Note 1)		1,019,408	1,322,683
Revenue		217,280	281,834
Cost		24,220	26,008
Revenue less cost of sales		193,059	255,826
Selling, general and administrative expenses		177,062	205,118
Business transformation cost		23,353	13,043
Gain (loss) on sale and retirement of non-current assets	7	(37)	90,082
Other income		1,278	1,749
Other expenses		4,125	2,000
Operating profit (loss)		(10,241)	127,496
Share of results of associates		317	303
Gain on sales of shares of associates		50	-
Profit (loss) before interest and tax		(9,873)	127,800
Finance income		8,852	802
Finance costs		6,042	11,473
Profit (loss) before tax		(7,063)	117,128
Income tax expense		(2,911)	49,838
Profit (loss) for the period		(4,152)	67,290
Profit (loss) attributable to:			
Owners of the parent		(5,508)	65,641
Non-controlling interests		1,356	1,649
Earnings (loss) per share			
Basic earnings (loss) per share (Yen)	13	(19.58)	236.40
Diluted earnings (loss) per share (Yen)	13	(19.58)	235.73

## Reconciliation from operating profit (loss) to underlying operating profit

		(Millions of Yen)
	Third quarter ended September 30, 2020 (From July 1 to September 30, 2020)	Third quarter ended September 30, 2021 (From July 1 to September 30, 2021)
Operating profit (loss)	(10,241)	127,496
Amortization of intangible assets incurred in acquisitions	7,493	7,276
Selling, general and administrative expenses	539	2,398
Business transformation cost	23,353	13,043
(Gain) loss on sale and retirement of non-current assets	37	(90,082)
Other income	(2)	(225)
Other expenses	1,896	308
Underlying operating profit (Note 2)	23,076	60,214

- (Notes) 1 Turnover represents the total amount billed and billable to clients handled by the Dentsu Group (hereinafter referred to as "the Group"), net of discounts, VAT and other sales-related taxes.

Disclosure of turnover information is not required under IFRS; however, it is voluntarily disclosed in the Condensed Quarterly Consolidated Statement of Income since management has concluded that the information is useful for users of the financial statements.

- 2 The underlying operating profit is a KPI to measure recurring business performance which is calculated as operating profit added with gain/loss related to M&As and one-off items.

Gain/loss related to M&As: Amortization of M&A related intangible assets, acquisition costs, share-based compensation expenses related to acquired companies, and share-based compensation expenses following the acquisition of 100% ownership of a subsidiary

Examples of one-off items: Business transformation cost, impairment loss and gain/loss on sales of non-current assets

Underlying operating profit is not defined under IFRS; however, it is voluntarily disclosed in the Condensed Quarterly Consolidated Statement of Income since management has concluded that the information is useful for users of the financial statements.

### (3) Condensed Quarterly Consolidated Statement of Comprehensive Income

For the nine months ended September 30, 2020 and September 30, 2021

		(Millions of Yen)	
	Notes	Nine months ended	Nine months ended
		September 30, 2020	September 30, 2021
		(From January 1 to September 30, 2020)	(From January 1 to September 30, 2021)
<b>PROFIT FOR THE PERIOD</b>		15,533	106,290
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS:</b>			
Net change in financial assets measured at fair value through other comprehensive income	15	(27,396)	17,033
Remeasurements of defined benefit plans		(9,808)	20
Share of other comprehensive income of investments accounted for using the equity method		(187)	2
<b>ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS:</b>			
Exchange differences on translation of foreign operations		(24,421)	23,587
Effective portion of the change in the fair value of cash flow hedges		(7,572)	8,778
Share of other comprehensive income of investments accounted for using the equity method		2	92
Other comprehensive income, net of tax		(69,383)	49,516
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>		(53,850)	155,806
<b>COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:</b>			
Owners of the parent		(53,167)	149,126
Non-controlling interests		(682)	6,679



For the third quarter ended September 30, 2020 and September 30, 2021

	(Millions of Yen)	
	Third quarter ended September 30, 2020 (From July 1 to September 30, 2020)	Third quarter ended September 30, 2021 (From July 1 to September 30, 2021)
<b>PROFIT (LOSS) FOR THE PERIOD</b>	(4,152)	67,290
<b>OTHER COMPREHENSIVE INCOME</b>		
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS:</b>		
Net change in financial assets measured at fair value through other comprehensive income	18,062	7,154
Remeasurements of defined benefit plans	(1,600)	(2)
Share of other comprehensive income of investments accounted for using the equity method	(46)	(113)
<b>ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS:</b>		
Exchange differences on translation of foreign operations	4,583	349
Effective portion of the change in the fair value of cash flow hedges	(918)	3,597
Share of other comprehensive income of investments accounted for using the equity method	26	(10)
Other comprehensive income, net of tax	20,106	10,974
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>	15,954	78,265
<b>COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:</b>		
Owners of the parent	15,559	76,381
Non-controlling interests	395	1,883

#### (4) Condensed Quarterly Consolidated Statement of Changes in Equity

For the nine months ended September 30, 2020 (From January 1 to September 30, 2020)

(Millions of Yen)

	Notes	Total equity attributable to owners of the parent				
		Share capital	Share premium account	Treasury shares	Other components of equity	
					Exchange differences on translation of foreign operations	Effective portion of the change in the fair value of cash flow hedges
As of January 1, 2020		74,609	100,102	(60,202)	26,559	2,952
Profit for the period						
Other comprehensive income					(22,942)	(7,571)
Comprehensive income for the period		—	—	—	(22,942)	(7,571)
Repurchase of treasury shares	8			(10,002)		
Disposal of treasury shares	8		(26,196)	35,613		
Dividends	8					
Transactions with non-controlling interests						
Transfer from other components of equity to retained earnings						
Other changes			1,127			
Transactions with owners—total		—	(25,069)	25,610	—	—
As of September 30, 2020		74,609	75,032	(34,592)	3,616	(4,619)

(Millions of Yen)

	Notes	Total equity attributable to owners of the parent					
		Other components of equity				Non-controlling interests	Total equity
		Net change in financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total	Retained earnings		
As of January 1, 2020		177,137	—	206,649	653,818	974,977	1,052,533
Profit for the period				—	10,286	10,286	15,533
Other comprehensive income		(23,131)	(9,809)	(63,454)		(63,454)	(69,383)
Comprehensive income for the period		(23,131)	(9,809)	(63,454)	10,286	(53,167)	(53,850)
Repurchase of treasury shares	8			—		(10,002)	(10,002)
Disposal of treasury shares	8			—		9,416	9,416
Dividends	8			—	(26,508)	(26,508)	(29,004)
Transactions with non-controlling interests				—	16,496	16,496	(1,929)
Transfer from other components of equity to retained earnings		3,536	9,809	13,345	(13,345)	—	—
Other changes				—	32	1,159	1,736
Transactions with owners—total		3,536	9,809	13,345	(23,324)	(9,438)	(29,783)
As of September 30, 2020		157,542	—	156,540	640,780	912,370	968,900

For the nine months ended September 30, 2021 (From January 1 to September 30, 2021)

(Millions of Yen)

	Notes	Total equity attributable to owners of the parent				
		Share capital	Share premium account	Treasury shares	Other components of equity	
					Exchange differences on translation of foreign operations	Effective portion of the change in the fair value of cash flow hedges
As of January 1, 2021		74,609	75,596	(34,592)	3,162	(5,398)
Profit for the period						
Other comprehensive income					22,685	8,780
Comprehensive income for the period		—	—	—	22,685	8,780
Repurchase of treasury shares	8			(20,100)		
Disposal of treasury shares						
Dividends	8					
Transactions with non-controlling interests						
Transfer from other components of equity to retained earnings						
Other changes			1,780			
Transactions with owners—total		—	1,780	(20,100)	—	—
As of September 30, 2021		74,609	77,376	(54,693)	25,848	3,381

(Millions of Yen)

	Notes	Total equity attributable to owners of the parent					
		Other components of equity				Non-controlling interests	Total equity
		Net change in financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total	Retained earnings		
As of January 1, 2021		44,026	—	41,790	599,466	63,483	820,353
Profit for the period				—	101,746	4,544	106,290
Other comprehensive income		15,894	20	47,380		2,135	49,516
Comprehensive income for the period		15,894	20	47,380	101,746	6,679	155,806
Repurchase of treasury shares	8			—	(20,100)		(20,100)
Disposal of treasury shares				—	—		—
Dividends	8			—	(20,888)	(2,511)	(23,400)
Transactions with non-controlling interests				—	(6)	(1,650)	(1,656)
Transfer from other components of equity to retained earnings		(1,299)	(20)	(1,320)	1,320	—	—
Other changes				—	(35)	(65)	1,679
Transactions with owners—total		(1,299)	(20)	(1,320)	(19,610)	(4,226)	(43,478)
As of September 30, 2021		58,620	—	87,850	681,601	65,935	932,681

## (5) Condensed Quarterly Consolidated Statement of Cash Flows

	(Millions of Yen)	
	Notes	
	Nine months ended September 30, 2020 (From January 1 to September 30, 2020)	Nine months ended September 30, 2021 (From January 1 to September 30, 2021)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	25,067	180,233
<b>ADJUSTMENTS FOR:</b>		
Depreciation and amortization	63,872	58,399
Share-based compensation expenses related to acquired companies	3,093	-
Interest and dividend income	(3,067)	(2,351)
Interest expense	13,870	12,965
Share of results of associates	(334)	(1,559)
Impairment loss of associates	436	-
Revaluation (gain) loss on contingent consideration and put option liability	(19,024)	21,142
(Gain) loss on sale and retirement of non-current assets	91	(119,245)
Increase (decrease) in liability for retirement benefits	526	4,232
Increase (decrease) in provision of business transformation cost	14,146	(27,613)
Other—net	19,299	7,565
Cash flows from operating activities before adjusting changes in working capital and others	117,978	133,768
<b>CHANGES IN WORKING CAPITAL:</b>		
(Increase) decrease in trade and other receivables	280,416	(4,642)
(Increase) decrease in inventories	(4,593)	(15,803)
(Increase) decrease in other current assets	(15,067)	(12,350)
Increase (decrease) in trade and other payables	(372,189)	(30,917)
Increase (decrease) in other current liabilities	(24,358)	14,513
Change in working capital	(135,791)	(49,199)
Subtotal	(17,813)	84,568
Interest received	1,828	1,591
Dividends received	2,185	2,245
Interest paid	(13,804)	(13,249)
Income taxes paid	(30,498)	(99,850)
Net cash flow from operating activities	(58,102)	(24,695)

		(Millions of Yen)	
		Nine months ended September 30, 2020 (From January 1 to September 30, 2020)	Nine months ended September 30, 2021 (From January 1 to September 30, 2021)
	Notes		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment for purchase of property, plant and equipment, intangible assets and investment property		(15,537)	(15,500)
Proceeds from sale of property, plant and equipment, intangible assets and investment property		908	33,825
Proceeds from sale and leaseback	7	-	305,200
Net cash (paid) received on acquisition of subsidiaries	6	(18,829)	(43,221)
Net cash (paid) received on liquidation of subsidiaries		-	(2,019)
Payments for purchases of securities		(8,441)	(6,537)
Proceeds from sales of securities		2,187	5,047
Other—net		(991)	(2,377)
Net cash flow from investing activities		(40,702)	274,416
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net increase (decrease) in short-term borrowings		60,444	11,248
Proceeds from long-term borrowings		1,100	1,993
Repayment of long-term borrowings		(123,372)	(36,309)
Proceeds from issuance of corporate bonds		119,629	-
Repayments of lease obligations		(27,094)	(22,644)
Payment for acquisition of interest in a subsidiary from non-controlling interests		(10,112)	(105,792)
Repurchase of treasury shares	8	(10,002)	(20,101)
Dividends paid	8	(26,508)	(20,888)
Dividends paid to non-controlling interests		(2,639)	(2,521)
Other—net		3,108	(4,732)
Net cash flow from financing activities		(15,445)	(199,749)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		(11,338)	21,075
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		(125,589)	71,046
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		414,055	530,692
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		288,465	601,738

## Notes on the Condensed Quarterly Consolidated Financial Statements

### 1. Reporting Entity

Dentsu Group Inc. (hereinafter referred to as "the Company") is a joint stock corporation under the Companies Act of Japan located in Japan.

The address of the Company's registered corporate headquarters is available on the Company's website ([www.group.dentsu.com](http://www.group.dentsu.com)).

The details of businesses and principal business activities of the Company and its subsidiaries (hereinafter referred to as "the Group") are stated in "5. Segment Information."

The condensed quarterly consolidated financial statements for the third quarter ended September 30, 2021 were approved by Toshihiro Yamamoto, Representative Director and President & CEO, and Arinobu Soga, Director and Executive Officer, on November 12, 2021.

### 2. Basis of Preparation

#### (1) Compliance with the International Financial Reporting Standards (hereinafter referred to as "IFRS")

The Company's condensed quarterly consolidated financial statements meet all requirements of Article 1-2 "Specified Company for Designated IFRS" stipulated in the Ordinance, and are prepared in accordance with IAS 34 under the provisions of Article 93 of the Ordinance.

The condensed quarterly consolidated financial statements do not include all of the information that must be disclosed in the annual consolidated financial statements, and therefore should be used in conjunction with the consolidated financial statements for the previous fiscal year.

#### (2) Changes in Presentation

(Condensed Quarterly Consolidated Statement of Income)

The "Gain (loss) on sale and retirement of non-current assets," which had been presented under "Other income" and "Other expenses" in the nine months ended

September 30, 2020, are presented separately in the nine months ended September 30, 2021, due to an increase in their quantitative materiality. To reflect this change in the presentation, the Condensed Quarterly Consolidated Statement of Income for the nine months ended September 30, 2020 has been reclassified.

As a result, the 4,644 million yen presented under "Other income" and the 11,818 million yen presented under "Other expenses" in the Condensed Quarterly Consolidated Statement of Income for the nine months ended September 30, 2020 have been reclassified as (91) million yen under "Gain (loss) on sale and retirement of non-current assets," 4,633 million yen under "Other income," and 11,715 million yen under "Other expenses."

(Condensed Quarterly Consolidated Statement of Cash Flows)

The "(Gain) loss on sale and retirement of non-current assets," which had been presented under "Other—net" in "Cash flows from operating activities" in the nine months ended September 30, 2020, is presented separately from the nine months ended September 30, 2021, due to an increase in its quantitative materiality. To reflect this change in the presentation, the Condensed Quarterly Consolidated Statement of Cash Flows for the nine months ended September 30, 2020 has been reclassified.

As a result, the 19,391 million yen presented under "Other—net" in "Cash flows from operating activities" in the Condensed Quarterly Consolidated Statement of Cash Flows for the nine months ended September 30, 2020 has been reclassified as 91 million yen under "(Gain) loss on sale and retirement of non-current assets" and 19,299 million yen under "Other—net."

### 3. Significant Accounting Policies

Significant accounting policies applied to the condensed quarterly consolidated financial statements for the third quarter ended September 30, 2021 are identical to those applied to the consolidated financial statements for the previous fiscal year. Meanwhile, income taxes for the nine months ended September 30, 2021 are calculated based on the estimated annual effective tax rate.

#### 4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the condensed quarterly consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets and liabilities. These estimates and assumptions are based on the best judgment of management in light of historical experience and various factors deemed to be reasonable as of the fiscal year-end date. However, given their nature, actual results may differ from those estimates and assumptions.

The estimates and underlying assumptions are continuously reviewed. The effects of a change in estimates are recognized in the period of the change and future periods.

Accounting judgments, estimates and assumptions that may have a material effect on the amount in the condensed quarterly consolidated financial statements for the third quarter ended September 30, 2021 are identical to those for the consolidated financial statements for the previous fiscal year, except for the changes in accounting estimates presented below.



## (Changes in Accounting Estimates)

In the fiscal year ended December 31, 2020, in our international business, the Company recognized provisions for losses expected from future sublease agreements in connection with unfavorable real estate lease agreements that the Company has concluded as a lessee but have not started. During the nine months ended September 30, 2021, with regard to some real estate agreements, the Company cancelled real estate lease agreements, and no longer expects losses from sublease agreements. As a result, the Company reversed provisions.

Due to these changes, provisions under non-current liabilities decreased 13,418 million yen and business transformation cost decreased 13,410 million yen during the nine months ended September 30, 2021.

## (Additional Information)

### Accounting Estimates Related to the Spread of COVID-19

The spread of COVID-19 has an extensive impact on the economy and corporate activities, and it is also affecting the Company's business activities.

As described in (Additional Information) in the annual securities report for the year ended December 31, 2020, these accounting estimates are based on the assumption that the impact of the spread of COVID-19 was the greatest in the fiscal year ended December 31, 2020, and that a recovery trend has been emerging thereafter.

## 5. Segment Information

### (1) Description of reportable segments

The Group's reportable segments are those for which discrete financial information is available, and for which the Board of Directors conducts regular reviews to make decisions about resources to be allocated and to assess performance.

The Group is mainly engaged in providing communications-related services focusing on advertising, and manages its Japan business and international business separately.

Accordingly, the Group has two reportable segments: Japan business segment and International business segment.

## (2) Information on reportable segments

Segment profit is based on operating profit net of adjusting items such as "Amortization of intangible assets incurred in acquisitions."

Intersegment revenues are based on the prevailing market price.

Nine months ended September 30, 2020 (From January 1 to September 30, 2020)

(Millions of Yen)

	Japan business	International business	Total	Eliminations/ Central costs	Consolidated
Turnover (Note 1)	1,272,374	1,877,340	3,149,714	(3,459)	3,146,255
Revenue (Note 2)	311,067	368,753	679,821	(3,459)	676,362
Revenue less cost of sales (Note 3)	255,100	347,144	602,245	(317)	601,927
Segment profit (underlying operating profit) (Note 4)	43,763	35,886	79,650	(3,827)	75,823
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	—	—	—	—	(23,333)
Selling, general and administrative expenses	—	—	—	—	(1,608)
Business transformation cost	—	—	—	—	(25,174)
Loss on sale and retirement of non-current assets	—	—	—	—	(91)
Other income	—	—	—	—	19
Other expenses	—	—	—	—	(7,130)
Operating profit	—	—	—	—	18,503
Share of results of associates	—	—	—	—	334
Impairment loss of associates	—	—	—	—	436
Gain on sales of shares of associates	—	—	—	—	55
Revaluation gain on step acquisition	—	—	—	—	44
Finance income	—	—	—	—	22,331
Finance costs	—	—	—	—	15,766
Profit before tax	—	—	—	—	25,067
Segment assets (Note 5)	1,385,491	1,946,899	3,332,391	(1,146)	3,331,244

Nine months ended September 30, 2021 (From January 1 to September 30, 2021)

(Millions of Yen)

	Japan business	International business	Total	Eliminations/ Central costs	Consolidated
Turnover (Note 1)	1,384,822	2,320,775	3,705,598	(10,776)	3,694,821
Revenue (Note 2)	366,402	418,923	785,325	(10,776)	774,548
Revenue less cost of sales (Note 3)	304,522	392,052	696,574	(178)	696,396
Segment profit (underlying operating profit) (Note 4)	82,012	53,582	135,594	(3,768)	131,826
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	—	—	—	—	(22,393)
Selling, general and administrative expenses	—	—	—	—	(3,963)
Business transformation cost	—	—	—	—	(11,383)
Gain on sale and retirement of non-current assets	—	—	—	—	119,245
Other income	—	—	—	—	292
Other expenses	—	—	—	—	(1,747)
Operating profit	—	—	—	—	211,876
Share of results of associates	—	—	—	—	1,559
Gain on sales of shares of associates	—	—	—	—	35
Finance income	—	—	—	—	3,338
Finance costs	—	—	—	—	36,577
Profit before tax	—	—	—	—	180,233
Segment assets (Note 5)	1,220,428	2,067,937	3,288,366	212,094	3,500,460

- (Notes)
1. Turnover represents the total amount billed and billable to clients by the Group, net of discounts, VAT and other sales-related taxes. Disclosure of turnover information is not required under IFRS; however, it is voluntarily disclosed in the Condensed Quarterly Consolidated Statement of Income since management has concluded that the information is useful for users of the financial statements.
  2. Eliminations/central costs for revenue are due to eliminations of intersegment transactions (same amount as for turnover).
  3. Eliminations/central costs for revenue less cost of sales are due to eliminations of intersegment transactions.
  4. Eliminations/central costs for segment profit (underlying operating profit) are due to central costs attributable to the holding company and eliminations of intersegment transactions. Central costs attributable to the holding company are personnel expenses at the holding company.
  5. Eliminations/central costs for segment assets are due to central assets attributable to the holding company and eliminations of intersegment transactions. Central assets attributable to the holding company are the Company's cash (cash and deposits) and loans, etc. to Group companies.

## 6. Business Combinations, etc.

Nine months ended September 30, 2021 (From January 1 to September 30, 2021)

### Acquisition of LiveArea

#### (1) Details of business combination

##### 1) Name of the acquired business

LiveArea (division of PFSweb, Inc.)

##### 2) Description of acquired business

U.S. advertising agency

##### 3) Main reason for business combination

LiveArea is a global customer experience management (hereinafter, "CXM") and commerce agency based out of the United States. The main reason for combining the business is to expand the scope of the Group's CXM and commerce businesses and to strengthen service functions in the B2C field of Merkle Group Inc. (hereinafter referred to as "Merkle"; Headquarters: Maryland, United States). Merkle is one of the six leadership brands that the Group is seeking to expand overseas and is a marketing company whose forte is using technology to analyze data.

##### 4) Date of the business combination

August 27, 2021

##### 5) Ratio of acquired equity interest with voting rights

100.0%

##### 6) Legal form of the business combination

Acquisition of shares in exchange for cash

#### (2) Target period of results for the acquired business included in the condensed quarterly consolidated financial statements

Includes results from August 27, 2021 to September 30, 2021.

#### (3) Acquisition costs of the acquired business and breakdown thereof

Acquisition cost of the acquired business: 27,213 million yen

Breakdown of acquisition costs

Consideration (cash) for shares: 27,213 million yen

#### (4) Amount of acquisition-related expenses and account titles to be presented

The acquisition-related expenses pertaining to said business combination were 435 million yen and were included under "Selling, general and administrative expenses" in the Condensed Quarterly Consolidated Statement of Income.

(5) Fair value of assets and liabilities on date of business combination, payment consideration and goodwill

(Millions of Yen)

	As of date on which control was gained (August 27, 2021)
Current assets	3,376
Non-current assets	10,712
Total assets	14,088
Current liabilities	1,890
Non-current liabilities	314
Total liabilities	2,204
Fair value of identifiable net assets	11,884
Payment consideration	27,213
Goodwill	15,329

\*Goodwill reflects expected future excess earning power.

For some of the above amounts, the allocation for the acquisition costs has not been completed. Therefore, provisional fair values are calculated based upon reasonable information available as of the time of writing.

(6) Impact of business combination on cash flows

Payment of acquisition costs: (27,213) million yen

Cash and cash equivalents received on the date of combination: 588 million yen

Payment for acquisition of shares: (26,625) million yen

(7) Revenue and profit of the acquired business

The LiveArea revenue for the acquired business included in the Condensed Quarterly Consolidated Statement of Income after the date control was gained is 1,057 million yen while the profit for the period was 24 million yen.

7. Sale and Leaseback Transactions

In the nine months ended September 30, 2021, the Company sold the real estate in Shiodome, Zone A, that includes the Dentsu Headquarters Building, and began the lease of the Dentsu Headquarters Building.

In August 2020, the Group launched a comprehensive review of business operations and capital efficiency and carried out the transaction with the aim of improving capital efficiency, strengthening the company's financial position, and securing growth investment funds.

The main details with regard to sold and leased assets are as follows:

Asset details and location	Gain on sale	Book value	Current situation
<ul style="list-style-type: none"> <li>• Location: 1-8-1 Higashi-shimbashi, Minato-ku, Tokyo</li> <li>• Land: 17,244 m<sup>2</sup></li> <li>• Site area: 17,244 m<sup>2</sup></li> <li>• Height: 213.3 m</li> <li>• No. of floors: 48 floors above ground, 5 floors below ground</li> <li>• (additional one building)</li> </ul>	89,186 million yen	177,137 million yen	Used as an office/ commercial/ cultural facility

1. The fixed term building lease agreement for the building covers the office sections, Dentsu Hall, and studios used by the Company and Group companies except for commercial facilities.
2. The term of the lease is 11 years from the date the sale was executed and has no options for extensions or cancellations.
3. Due to an arrangement with the purchaser, the Company is refraining from disclosing the sale price and lease fee; however, the price is one that is appropriate and one that reflects the market price arrived at by competitive bidding.
4. The gain on sale is included in "Gain (loss) on sale and retirement of non-current assets" in the Condensed Quarterly Consolidated Statement of Income.
5. The book value of 177,137 million yen is broken down as 141,390 million yen for "Property, plant and equipment" and 35,747 for "Investment property."

The total lease payment under the lease agreement is 90,596 million yen and there is no option to repurchase the leased portions.

As a result of the transaction, 52,802 million yen was recorded for "Right-of-use assets" and 88,633 million yen for "Lease liabilities" in the third quarter ended September 30, 2021. For details on the impact on cash flows, please refer to "Proceeds from sale and leaseback" under "Cash flows from investing activities" in "1. Condensed Quarterly Consolidated Financial Statements, (5) Condensed Quarterly Consolidated Statement of Cash Flows".

## 8. Capital

### (1) Dividends

Dividends paid are as follows:

Nine months ended September 30, 2020 (From January 1 to September 30, 2020)

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Board of Directors (February 13, 2020)	Ordinary shares	13,152	47.50	December 31, 2019	March 5, 2020
Board of Directors (August 13, 2020)	Ordinary shares	13,381	47.50	June 30, 2020	September 4, 2020

(Notes)

1. The total amount of dividends based on a resolution at the meeting of the Board of Directors held on February 13, 2020 includes a dividend of 7 million yen for the Company's shares held by the Trust E Unit in relation to the Directors' Stock Compensation Trust.
2. The total amount of dividends based on a resolution at the meeting of the Board of Directors held on August 13, 2020 includes a dividend of 18 million yen for the Company's shares held by the Trust E Unit in relation to the performance-based stock compensation plan.

Nine months ended September 30, 2021 (From January 1 to September 30, 2021)

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Board of Directors (February 15, 2021)	Ordinary shares	6,690	23.75	December 31, 2020	March 5, 2021
Board of Directors (August 11, 2021)	Ordinary shares	14,226	50.50	June 30, 2021	September 9, 2021

(Notes)

1. The total amount of dividends based on a resolution at the meeting of the Board of Directors held on February 15, 2021 includes a dividend of 9 million yen for the Company's shares held by the Trust E Unit in relation to the Directors' Stock Compensation Trust.
2. The total amount of dividends based on a resolution at the meeting of the Board of Directors held on August 11, 2021 includes a dividend of 19 million yen for the Company's shares held by the Trust E Unit in relation to the performance-based stock compensation plan.

## (2) Purchase of treasury shares

Nine months ended September 30, 2020 (From January 1 to September 30, 2020)

The Company, in accordance with a resolution of the Board of Directors on August 7, 2019, carried out the repurchase of treasury shares during the nine months ended September 30, 2020 as described below, pursuant to Article 156 of the Companies Act, as applied mutatis mutandis under the provisions of Article 165, Paragraph 3 of the Act, and the provisions of the Company's Articles of Incorporation. This repurchase of treasury shares was concluded on February 14, 2020.

1) Class of shares repurchased:	Common shares of the Company
2) Total number of shares repurchased:	2,727,300 shares
3) Total repurchase cost:	9,999 million yen
4) Repurchase period:	January 6, 2020 to February 14, 2020
5) Method of repurchase:	Market purchase on the Tokyo Stock Exchange

Nine months ended September 30, 2021 (From January 1 to September 30, 2021)

The Company, in accordance with a resolution of the Board of Directors on February 15, 2021, carried out the repurchase of treasury shares during the nine months ended September 30, 2021 as described below, pursuant to Article 156 of the Companies Act, as applied mutatis mutandis under the provisions of Article 165, Paragraph 3 of the Act, and the provisions of the Company's Articles of Incorporation.

1) Class of shares repurchased:	Common shares of the Company
2) Total number of shares repurchased:	5,022,000 shares
3) Total repurchase cost:	20,092 million yen
4) Repurchase period:	July 1, 2021 to September 30, 2021
5) Method of repurchase:	Market purchase on the Tokyo Stock Exchange

## (3) Disposal of treasury shares

Nine months ended September 30, 2020 (From January 1 to September 30, 2020)

Effective April 15, 2020, OrangeCo Merger Sub, Inc., the Company's wholly-owned subsidiary, implemented an absorption-type merger with Merkle. As consideration for



the merger, a certain amount of cash and the Company's treasury shares (4,736,425 shares) were delivered to the shareholders of Merkle excluding the Group, and the disposal price resolved at the meeting of the Board of Directors was 2,467 yen per share.

Additionally, effective April 17, 2020, for the purpose of retaining the key members of Merkle's management team after the merger, the Company's treasury shares (2,581,200 shares) were granted as share compensation to them, and payment procedures for the shares granted were completed on the same date. The disposal price resolved at the meeting of the Board of Directors was 2,467 yen per share.

## 9. Revenue

Breakdown of revenue recognized from contracts with clients is shown below.

Nine months ended September 30, 2020 (From January 1 to September 30, 2020)

(Millions of Yen)

	Segments			Re-conciliations of internal transactions	Total
	Japan business	International business	Subtotal		
Principal services					
Advertising	249,203	368,753	617,956	—	—
Information Services	59,456	—	59,456	—	—
Other Business	2,407	—	2,407	—	—
Total	311,067	368,753	679,821	(3,459)	676,362
Breakdown by regional markets					
Japan	311,067	—	311,067	—	—
EMEA (Europe, Middle East and Africa)	—	138,186	138,186	—	—
Americas	—	168,667	168,667	—	—
APAC (Asia Pacific)	—	61,900	61,900	—	—
Total	311,067	368,753	679,821	(3,459)	676,362

Nine months ended September 30, 2021 (From January 1 to September 30, 2021)

(Millions of Yen)

	Segments			Re-conciliations of internal transactions	Total
	Japan business	International business	Subtotal		
Principal services					
Advertising	300,043	418,923	718,966	—	—
Information Services	64,051	—	64,051	—	—
Other Business	2,307	—	2,307	—	—
Total	366,402	418,923	785,325	(10,776)	774,548
Breakdown by regional markets					
Japan	366,402	—	366,402	—	—
EMEA (Europe, Middle East and Africa)	—	165,273	165,273	—	—
Americas	—	184,391	184,391	—	—
APAC (Asia Pacific)	—	69,259	69,259	—	—
Total	366,402	418,923	785,325	(10,776)	774,548

## 10. Other Income

The breakdown of other income is as follows:

(Millions of Yen)

	Nine months ended September 30, 2020 (From January 1 to September 30, 2020)	Nine months ended September 30, 2021 (From January 1 to September 30, 2021)
Foreign exchange gains	—	398
Profit distributions	3,416	2,769
Other	1,216	1,931
Total	4,633	5,099

## 11. Other Expenses

The breakdown of other expenses is as follows:

(Millions of Yen)

	Nine months ended September 30, 2020 (From January 1 to September 30, 2020)	Nine months ended September 30, 2021 (From January 1 to September 30, 2021)
Foreign exchange losses	192	-
Impairment loss	2,548	879
Amortization of long-term prepaid expenses	3,585	2,753
Share-based compensation expenses related to acquired companies	3,093	-
Other	2,294	2,666
Total	11,715	6,299

## 12. Finance Income and Finance Costs

(1) The breakdown of finance income is as follows:

(Millions of Yen)

	Nine months ended September 30, 2020 (From January 1 to September 30, 2020)	Nine months ended September 30, 2021 (From January 1 to September 30, 2021)
Interest income	1,360	1,398
Dividend income	1,706	952
Changes in fair value of contingent consideration	13,097	—
Remeasurements of stock purchase obligations	5,927	—
Foreign exchange gains	—	119
Other	239	867
Total	22,331	3,338

(2) The breakdown of finance costs is as follows:

(Millions of Yen)

	Nine months ended September 30, 2020 (From January 1 to September 30, 2020)	Nine months ended September 30, 2021 (From January 1 to September 30, 2021)
Interest expense	13,908	13,031
Changes in fair value of contingent consideration	—	16,737
Remeasurements of stock purchase obligations	—	4,405
Foreign exchange losses	733	—
Other	1,124	2,402
Total	15,766	36,577

### 13. Earnings (Loss) Per Share

#### (1) Basic earnings (loss) per share and diluted earnings (loss) per share

	Nine months ended September 30, 2020 (From January 1 to September 30, 2020)	Nine months ended September 30, 2021 (From January 1 to September 30, 2021)
Basic earnings per share (Yen)	36.90	363.25
Diluted earnings per share (Yen)	36.87	362.22

	Third quarter ended September 30, 2020 (From July 1 to September 30, 2020)	Third quarter ended September 30, 2021 (From July 1 to September 30, 2021)
Basic earnings (loss) per share (Yen)	(19.58)	236.40
Diluted earnings (loss) per share (Yen)	(19.58)	235.73

#### (2) Basis of calculating basic earnings (loss) per share and diluted earnings (loss) per share

	Nine months ended September 30, 2020 (From January 1 to September 30, 2020)	Nine months ended September 30, 2021 (From January 1 to September 30, 2021)
Profit for the period used for calculation of basic earnings per share and diluted earnings per share		
Profit for the period attributable to owners of the parent (Millions of Yen)	10,286	101,746
Amounts not attributable to ordinary equity holders of the parent (Millions of Yen)	—	—
Profit for the period used for calculation of basic earnings per share (Millions of Yen)	10,286	101,746
Adjustment		
Share-based payment held by subsidiaries and associates (Millions of Yen)	(2)	(4)
Profit for the period used for calculation of diluted earnings per share (Millions of Yen)	10,284	101,741
Weighted average number of ordinary shares outstanding used for the calculation of basic earnings per share and diluted earnings per share		
Weighted average number of ordinary shares outstanding used for the calculation of basic earnings per share (Thousands of shares)	278,763	280,095
Effect of dilutive potential ordinary shares (Thousands of shares):	161	786
Performance-based stock compensation plan		
The weighted average number of ordinary shares outstanding used for the calculation of diluted earnings per share (Thousands of shares)	278,925	280,881

	Third quarter ended September 30, 2020 (From July 1 to September 30, 2020)	Third quarter ended September 30, 2021 (From July 1 to September 30, 2021)
Profit (loss) for the period used for calculation of basic earnings (loss) per share and diluted earnings (loss) per share		
Profit (loss) for the period attributable to owners of the parent (Millions of Yen)	(5,508)	65,641
Amounts not attributable to ordinary equity holders of the parent (Millions of Yen)	—	—
Profit (loss) for the period used for calculation of basic earnings (loss) per share (Millions of Yen)	(5,508)	65,641
Adjustment		
Share-based payment held by subsidiaries and associates (Millions of Yen)	(0)	(0)
Profit (loss) for the period used for calculation of diluted earnings (loss) per share (Millions of Yen)	(5,509)	65,640
Weighted average number of ordinary shares outstanding used for the calculation of basic earnings (loss) per share and diluted earnings (loss) per share		
Weighted average number of ordinary shares outstanding used for the calculation of basic earnings (loss) per share (Thousands of shares)	281,327	277,674
Effect of dilutive potential ordinary shares (Thousands of shares):		
Performance-based stock compensation plan	—	786
The weighted average number of ordinary shares outstanding used for the calculation of diluted earnings (loss) per share (Thousands of shares)	281,327	278,460
Summary of financial instruments that were not included in the calculation of diluted earnings per share due to the fact that they were antidilutive	Performance-based stock compensation plan 161 thousand shares	—

## 14. Share-Based Compensation

Nine months ended September 30, 2021 (From January 1 to September 30, 2021)

Performance-based stock compensation plan for the Company and its consolidated subsidiaries

The Company introduced a performance-based stock compensation plan for senior executives of Dentsu International Limited in the fiscal year 2021.

Under this plan, senior executives of Dentsu International are granted a number of points calculated in accordance with the calculation formula prescribed by the Company as compensation for the performance of their duties during each fiscal year while in office. The number of points is finalized depending on total shareholder return (TSR) and consolidated underlying operating profit of the Group during a business performance assessment period, which is three consecutive fiscal years, the first fiscal year of which is the fiscal year in which the points are granted.

The details of the performance indicators related to this plan are shown below:

Performance Indicator	Benchmark Indicator	Composition (*1)
Total shareholder return (TSR)	Tokyo Stock Price Index (TOPIX)	30%
	Average total shareholder return (TSR) among peer group (*2)	20%
Consolidated underlying operating profit of the Dentsu Group	Compound annual growth rate (CAGR)	50%

\*1 The ratios represent the percentage constituting performance-based stock compensation (medium- to long-term bonus) on the assumption that each performance indicator is identical to their benchmark indicators.

\*2 Six companies comprising WPP plc, Omnicom Group Inc., Publicis Groupe S.A., Interpublic Group of Companies Inc., Accenture plc, and Hakuhodo DY Holdings Inc. were selected as peer competitors of the Dentsu Group

This plan is mainly an equity-settled stock compensation plan under which a number of common shares of the Company calculated primarily based on the number of finalized points are granted. In principle, senior executives of Dentsu International are granted common shares of the Company after a lapse of three consecutive fiscal years, the first fiscal year of which is the fiscal year for which the points are granted. During the nine months ended September 30, 2021, 352 million yen was recognized as expenses related to this equity-settled stock compensation plan.

The overview of this equity-settled stock compensation plan is shown below:

	Nine months ended September 30, 2021 (From January 1 to September 30, 2021)
	Number of rights (shares)
Balance at the beginning of the period	—
Grant	1,268,734
Cancellation	91,227
Balance at the end of the period	1,177,507

(Notes) 1 There is no exercise price under this plan.

2 The grant date was May 10, 2021.

3 The weighted average remaining life of this plan as of September 30, 2021 was 2.4 years.

The fair value on the grant date was 2,099 yen per point.

The fair value was calculated using the stock price on the grant date. Total shareholder return was calculated by forecasting future stock prices by Monte Carlo simulations based on the following assumptions:

	Nine months ended September 30, 2021 (From January 1 to September 30, 2021)
Stock price on the measurement date	3,535 yen
Vesting period	3.2 years
Expected dividend yield	2.016%
Volatility of the stock price	41.21%
Risk free rate	(0.136)%

## 15. Financial Instruments

### (1) The carrying amount and fair value of financial instruments

The breakdown of the carrying amount and fair value of financial instruments as of December 31, 2020 and September 30, 2021 is as follows:

The fair value of financial assets and financial liabilities measured at amortized cost approximates their carrying amount, except for long-term borrowings and bonds payable.

(Millions of Yen)

	FY2020 (As of December 31, 2020)		The third quarter (As of September 30, 2021)	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings	345,636	349,013	309,533	311,419
Bonds payable	199,478	200,133	199,546	200,980

(Note) Current portion that is scheduled for repayment within one year is included.

The fair value of long-term borrowings is determined by discounting the total of the principal and interest by the interest rate assumed in a case where the same loan is newly made.

The fair value hierarchy of long-term borrowings is categorized within Level 3.

The fair value of bonds payable is calculated based on market prices. The fair value hierarchy of bonds payable is categorized within Level 2.

### (2) Fair value hierarchy of financial instruments

Financial instruments measured at fair value on a recurring basis after initial recognition are categorized into the three levels of the fair value hierarchy according to observability and significance of input used in measurements. The fair value hierarchy is defined as follows:

Level 1: Fair value measured at the quoted price in the active market

Level 2: Fair value that is measured using the observable price other than categorized in Level 1 directly or indirectly

Level 3: Fair value that is measured based on unobservable inputs



When multiple inputs are used to measure fair value, fair value levels are determined based on the lowest level input that is significant to the entire fair value measurement.

Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of each quarter.

There are no transfers between Level 1 and Level 2 for the nine months ended September 30, 2020 and the nine months ended September 30, 2021.

The categories by level of the fair value hierarchy of financial instruments measured at fair value on a recurring basis are as follows.

In addition, figures in the following table include stock purchase obligations.

FY2020 (As of December 31, 2020)

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	-	8,333	-	8,333
Equity securities	87,682	-	77,760	165,442
Other	1,697	2,892	21,100	25,691
Total	89,380	11,226	98,861	199,467
Financial liabilities				
Derivative liabilities	-	17,093	-	17,093
Stock purchase obligations	-	-	33,963	33,963
Other (mainly contingent consideration)	-	-	42,258	42,258
Total	-	17,093	76,221	93,315

The third quarter (As of September 30, 2021)

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	-	8,154	-	8,154
Equity securities	101,959	-	81,825	183,785
Other	1,820	3,062	27,564	32,448
Total	103,780	11,216	109,390	224,387
Financial liabilities				
Derivative liabilities	-	11,025	-	11,025
Stock purchase obligations	-	-	38,571	38,571
Other (mainly contingent consideration)	-	-	48,082	48,082
Total	-	11,025	86,654	97,680

The fair values of interest rate swap contracts and foreign exchange contracts included in derivative assets and derivative liabilities are categorized within Level 2 as they are valued using price estimates obtained from financial institutions or observable market data.

The fair values of stocks included in equity securities and other (financial assets) for which active markets exist are categorized within Level 1 as they are determined based on market prices. For stocks in which active markets do not exist, the stocks valued using observable market data are categorized within Level 2, while stocks valued based mainly on the income approach (DCF method) and the market approach (the comparable companies analysis) using unobservable inputs are categorized within Level 3.

In the income approach (DCF method), significant unobservable inputs are mainly the exit multiple (corporate value/revenues) and the discount rate. The fair value increases (decreases) with an increase (decrease) in the exit multiple and decreases (increases) with an increase (decrease) in the discount rate. The exit multiple (corporate value/revenues) and discount rates used for the year ended December 31, 2020, and the third quarter ended September 30, 2021, were 4.6 and 6.9%–20%, respectively.

In the market approach (comparable companies analysis), significant unobservable inputs are mainly valuation multiples, such as corporate value/turnover, corporate

value/operating profit, and the price/net asset value multiple. Fair value increases (decreases) with increases (decreases) in such valuation multiples. The valuation multiples used for the year ended December 31, 2020, and the third quarter ended September 30, 2021, ranged 0.94–2.87 and 0.83–1.56 for corporate value/turnover and 15.05–17.73 and 16.36–24.72 for corporate value/operating profit respectively.

The fair values, etc. of stock purchase obligations and other (financial liabilities) are categorized within Level 3 as they are valued based on the discounted cash flow method using unobservable inputs. As the major unobservable inputs used in the valuation of other (financial liabilities) are mainly future profit levels and discount rates, their fair values, etc. will increase (decrease) in line with the improvement (deterioration) of profit levels and decrease (increase) with increases (decreases) in discount rates.

The fair values of assets and liabilities categorized within Level 3 are measured using asset and liability valuation methods determined by the department in charge in accordance with fair value measurement valuation policies and procedures. Fair value measurement results are approved by the appropriate personnel in charge.

The schedule of financial instruments categorized within Level 3 is as follows:

(Millions of Yen)

Financial assets	Nine months ended September 30, 2020 (From January 1 to September 30, 2020)	Nine months ended September 30, 2021 (From January 1 to September 30, 2021)
Balance at the beginning of the period	95,977	98,861
Other comprehensive income (Note 1)	(22,004)	9,564
Purchases or acquisitions	7,356	2,783
Sales or settlements	(481)	(826)
Other	115	(993)
Balance at the end of the period	80,963	109,390

(Millions of Yen)

Financial liabilities	Nine months ended September 30, 2020 (From January 1 to September 30, 2020)	Nine months ended September 30, 2021 (From January 1 to September 30, 2021)
Balance at the beginning of the period	208,959	76,221
Profit or loss (Note 2)	(19,024)	21,142
Purchases	4,150	437
Sales or settlements	(21,991)	(18,090)
Other (Notes 3 and 4)	(90,253)	6,944
Balance at the end of the period	81,838	86,654

- (Notes) 1 "Other comprehensive income" is associated with financial assets measured at fair value through other comprehensive income and included in "Net change in financial assets measured at fair value through other comprehensive income."
- 2 "Profit or loss" is associated with financial liabilities measured at fair value through profit or loss and included in finance income or finance costs. Profit or loss arising from financial

instruments held at the end of the quarter amounted to 19,024 million yen (finance income) for the nine months ended September 30, 2020, and 21,142 million yen (finance costs) for the nine months ended September 30, 2021.

- 3 In conjunction with the absorption-type merger of Merkle by OrangeCo Merger Sub, Inc., the Company's wholly-owned subsidiary, effective April 15, 2020, the rights (put option) that allow shareholders of Merkle to request the purchase of their own shares of Merkle expired. Consequently, the payment amount was finalized and the put option liability of 85,730 million yen has been excluded from the financial liabilities categorized within Level 3 during the nine months ended September 30, 2020.
- 4 The increase during the nine months ended September 30, 2021 is primarily due to changes in exchange rates.

## 16. Contingent Liabilities

The business that the Group companies execute over a wide range of areas may be subject to claims, etc. based on investigations, lawsuits, media audits, etc. from government agencies, clients, media companies, partner companies, etc., in both Japan and overseas. As a result of our verification, including consultations with experts and others, we believe that even if obligations arise due to such claims, it would not have a significant impact on the financial position or operating results of the Group.

## 17. Subsequent Events

### (Purchase of treasury shares)

The Company, in accordance with a resolution of the Board of Directors on February 15, 2021, carried out the repurchase of treasury shares as described below, pursuant to Article 156 of the Companies Act, as applied mutatis mutandis under the provisions of Article 165, Paragraph 3 of the Act, and the provisions of the Company's Articles of Incorporation.

#### 1. Details of the treasury shares repurchased from October 1, 2021 onward

(1) Class of shares repurchased:	Common shares of the Company
(2) Total number of shares repurchased:	851,700 shares
(3) Total repurchase cost:	3,560 million yen
(4) Repurchase period:	October 1, 2021 to October 31, 2021
(5) Method of repurchase:	Market purchase on the Tokyo Stock Exchange through a discretionary trading authorization agreement

## 2. Details of the resolution of the Board of Directors on February 15, 2021

(1) Class of shares to be repurchased:	Common shares of the Company
(2) Total number of shares that may be repurchased:	15,000,000 shares (maximum)
(3) Total repurchase cost:	30,000 million yen (maximum)
(4) Repurchase period:	February 16, 2021 to December 23, 2021
(5) Method of repurchase:	Market purchase on the Tokyo Stock Exchange through a discretionary trading authorization agreement (planned)

## 3. Cumulative total of the treasury shares repurchased since the date of the above-mentioned resolution of the Board of Directors onward (as of October 31, 2021)

(1) Total number of shares repurchased:	5,873,700 shares
(2) Total repurchase cost:	23,653 million yen

### (Conversion of Septeni Holdings Co., Ltd. into a Subsidiary)

The Company is to acquire additional shares in Septeni Holdings Co., Ltd. (Headquarters: Shinjuku-ku, Tokyo; Representative Director: Koki Sato; JASDAQ Securities Code: 4293; hereinafter, referred to as "Septeni HD"), one of the Company's equity-method affiliates, with the aim of deepening its capital and business alliance with the Septeni Group and further strengthening the Group's presence in the Digital Marketing sector as part of its business in Japan. On January 4, 2022 (scheduled), the Company will acquire additional shares in Septeni HD by performing a share exchange to make its consolidated subsidiary Dentsu Direct Inc. a wholly owned subsidiary of Septeni HD, by subscribing to the issuance of new shares through a third-party allocation by Septeni HD, and by transferring a portion of Dentsu Digital Inc. shares to Septeni HD. In doing this, the Company will hold 52.01% (in terms of voting rights) of said company's shares, thereby making the Septeni Group, whose holding company is Septeni HD, a consolidated subsidiary of the Company. On the same day, Dentsu Direct Inc. will become a wholly owned subsidiary of Septeni HD, and Dentsu Digital Inc. will become an equity-method affiliate of Septeni HD. Septeni HD will stay listed on JASDAQ and maintain an independent management structure.

## 1. Reason for acquisition of shares

On October 28, 2018, the Company announced that Septeni HD would become an equity-method affiliate through a capital and business alliance. In the subsequent period, through deep alliances and collaborations, the Septeni Group and companies within Dentsu Japan Network (hereinafter, "DJN"), such as Dentsu Digital Inc. and Dentsu Inc., which are two of the core companies within the Dentsu Group's business in Japan, have produced consistent results through their business alliance, including in terms of development of services and acquisition of new customers. Now, by welcoming the Septeni Group into the Dentsu Group, both groups are able to further increase synergy, leading to an increased presence in the digital marketing sector and accelerating the evolution of DJN into an Integrated Growth Partner (IGP) that is committed to the sustainable growth of client companies and society.

## 2. Additional share acquisition method

- 1) Exchange of 3,900 shares of Dentsu Direct Inc. common stock and 12,768,600 shares of Septeni HD common stock (all Dentsu Direct Inc. shares are to be transferred to Septeni HD. Dentsu Direct Inc. and Dentsu Elfto Architect Inc., a subsidiary of Dentsu Direct Inc., are to become subsidiaries of Septeni HD.)
- 2) Subscription for new shares issued by Septeni HD through third-party allocation (total 70,118,794 shares of Septeni HD common stock; amount paid per share: 465 yen; total amount paid: 32,605 million yen)
- 3) Transfer of 3,675 shares of Dentsu Digital Inc. common stock to Septeni HD (proportion of voting rights of Dentsu Digital Inc.: 25.0%; amount to be received as consideration for the transfer: 31,250 million yen)

\*The difference between the amount paid in 2) and the amount received in 3) is approximately 1.3 billion yen.

## 3. Changes in ownership status of Septeni HD by Dentsu Group Inc. in line with acquisition of additional shares

As of October 28, 2021: 26,895,001 shares of common stock (proportion of voting rights held: 20.98%)

After acquisition of additional shares (January 4, 2022 (scheduled)): 109,782,395 shares of common stock (proportion of voting rights held: 52.01%)

## 4. Schedule

Date of conclusion of capital and business alliance agreement: October 28, 2021

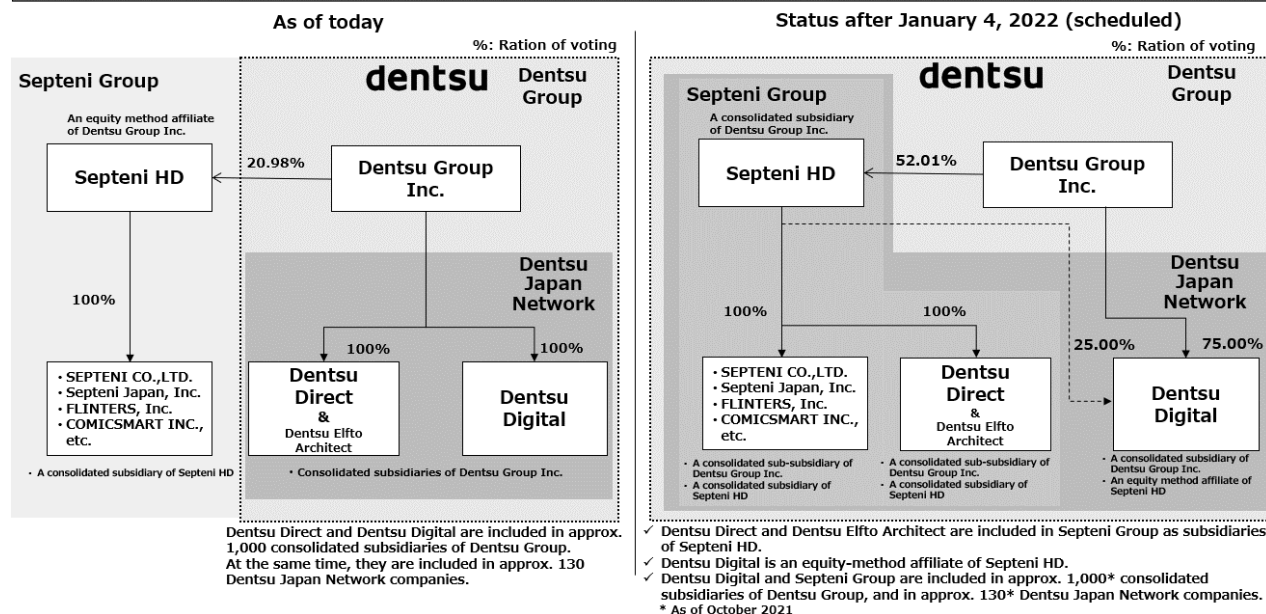
Effective date of share exchange: January 4, 2022 (scheduled)

Third-party allocation payment date: January 4, 2022 (scheduled)

Share transfer execution date: January 4, 2022 (scheduled)

## 5. Changes in the Dentsu Group's capital relationship and Group structure

### Changes in the Dentsu Group's capital relationship and Group structure before and after the additional acquisition of shares



## 2. Other Information

### (1) Dividends from surplus

The Company resolved at its meeting of the Board of Directors held on August 11, 2021 to pay interim dividends for the 173rd term (from January 1, 2021 to December 31, 2021) to the shareholders whose names are recorded in the final register of shareholders as of June 30, 2021 as shown below.

- |  |                    |
|--|--------------------|
| 1) Total amount of dividends:  | JPY 14,226 million |
| 2) Dividend per share:   | JPY 50.50          |
| 3) Effective date of the right to collect payment and commencement date of dividend payment: | September 9, 2021  |

(Note) The total amount of dividends based on a resolution at the meeting of the Board of Directors held on August 11, 2021 includes a dividend of 19 million yen for the Company's shares held by the Trust E Unit in relation to the performance-based stock compensation plan.

### (2) Significant lawsuits, etc.

Although there are pending lawsuits, etc. involving the Group, their impact on the Group's financial position and financial results is deemed to be insignificant.